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Building *Nunavut* Together
*Nunavu*liuqatigiingniq
Bâtir le *Nunavut* ensemble

Nunavut

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Department of Finance
Kiinauyaliqiyikkut
Ministère des Finances

2015-2016 NUNAVUT LIQUOR COMMISSION ANNUAL REPORT

TABLED IN THE LEGISLATIVE ASSEMBLY BY
THE HONOURABLE KEITH PETERSON, MLA
MINISTER OF FINANCE

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LETTER OF TRANSMITTAL

The Honourable Nellie Kusugak
Commissioner
Government of Nunavut

Dear Madame,

I have the honour of presenting the Annual Report for the Nunavut Liquor Commission covering the period April 1, 2015 to March 31, 2016.

Respectfully submitted,

_____

Hon. Keith Peterson
Minister of Finance
Minister Responsible for Liquor

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LETTER TO THE MINISTER

The Honourable Keith Peterson
Minister of Finance
Minister Responsible for Liquor

Nunavut Liquor Commission 2015-16 Annual Report

Pursuant to Subsection 61(1) of the Liquor Act, we are pleased to submit the 2015-2016 Annual Report for the Nunavut Liquor Commission for the fiscal year ended March 31, 2016.

We wish to express our thanks to all our staff for all their support and contribution to the progress of the Nunavut Liquor Commission during this past year.

_____

Chris D'Arcy
Deputy Minister

_____

Marion Love
Director of Nunavut Liquor Commission

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NUNAVUT LIQUOR COMMISSION

ORGANIZATIONAL OVERVIEW

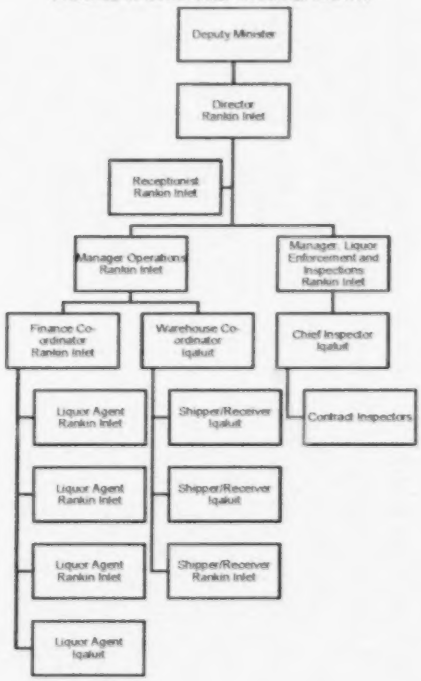
The Commission is charged with operating liquor stores, purchasing, selling, classifying and distributing alcohol beverage products in Nunavut, as well as administration of Part II of the Nunavut Liquor Act. The Commission follows the reporting stipulations outlined in Part II of the Act and Part IX of the Financial Administration Act.

The Commission, in exercising its powers and performing its duties, is bound by the Liquor Act to the direction of the Minister. The Commission is headed by a Director who reports to the Minister through the Deputy Minister of Finance, as shown in the Organizational Structure in Figure 1. The Director oversees a staff of 13 employees, divided between Rankin Inlet and Iqaluit, including the Manager of Liquor Enforcement and Inspections, and Inspectors in Iqaluit and Rankin Inlet.

With its headquarters in Rankin Inlet, the Commission manages its retail and wholesale business through two distribution warehouses, one in Rankin Inlet and the other in Iqaluit. The Commission also oversees one permit agent office on contract in Cambridge Bay and provides permit services in-house in Rankin Inlet and Iqaluit. The Permit Agent Offices provide, for a fee, import permits to allow individuals to bring in liquor from outside Nunavut.

ORGANIZATIONAL STRUCTURE

FIGURE 1: ORGANIZATIONAL CHART



LIQUOR RETAILING IN THE TERRITORY

Nunavut's geographical and infrastructure challenges make liquor retailing in the territory unconventional in the Canadian context. With a total population of approximately 36,702[1], 60 per cent of whom are of legal drinking age, the major challenge for liquor retailing in Nunavut is the need to service a very limited market, connected only by air and limited seasonal sea access, and spread out over a fifth of Canada's land mass.

Among the many characteristics that set Nunavut's liquor distribution system apart from other jurisdictions in Canada is its central processing structure. The Commission currently does not operate any liquor stores and all liquor orders are processed through the Commission's headquarters in Rankin Inlet and distributed via air cargo from either of the Commission's warehouses located in Iqaluit and Rankin Inlet. Licensed outlets are the exception; their purchases are picked up at the closest Commission warehouse.

To take advantage of the Government of Nunavut's greater purchasing power, the Commission's entire liquor inventory is purchased on behalf of the Commission by the Department of Community and Government Services' (CGS) Procurement Division.

As a matter of policy, the Procurement Division of CGS attempts to buy all products directly from breweries and distilleries. Due to small order volumes, some products are purchased through the Société des Alcools du Quebec (SAQ) or the Liquor Control Board of Ontario (LCBO).

The Commission uses a flat rate per litre mark-up in the pricing of alcohol beverage products. An administration fee of $0.27 per litre is also applied.

TABLE 1: MARK-UPS BY CATEGORY

Classification	Mark-up/Litre
Spirits	$26.11
Wine	$7.96
Coolers	$3.27
Beer	$2.37

The Commission's necessary reliance on air cargo for the distribution of liquor orders means that liquor purchases in Nunavut are faced with logistical considerations and additional freight and marshaling costs not commonly experienced across Canada.

One logistical hurdle concerns the payment of liquor orders through the Commission. At the present time, certified money instruments that include Money Orders, certified cheques, bank drafts, or direct deposit to the Commission's bank account are all accepted as payment vehicles.

The Commission also accepts credit cards (Visa, Mastercard and American Express) for product payment; residents of Iqaluit and Rankin Inlet are also able to use their debit cards for product payment. Once confirmed that payment has been received, the Commission ensures the product order is packaged and delivered to the airline for delivery to its destination.

[1] Nunavut Statistics, January 01, 2015 Population Statistics

Over and above the product price, there is an additional charge for handling and local cartage of $10 (plus GST) per order, and a bottle deposit return fee. The shipment is then sent freight collect to the customer. Freight costs vary, depending on distance, community and carrier used.

Flight schedule structures serving Nunavut impose a de facto waiting period on all liquor purchases in the territory (Licensees and holders of Special Occasion Permits excepted). Iqaluit residents must purchase their alcohol from the Rankin Inlet warehouse and conversely Rankin Inlet residents must purchase their alcohol from Iqaluit. All other eligible residents of Nunavut may place their order at either facility.

BEER AND WINE STORE

A plebiscite under the Plebiscite Act was held on April 20, 2015 in Iqaluit. Approximately 77 percent of voters voted in favor of opening a beer and wine store.

As of March 31, 2016, Cabinet has yet to officially announce formal plans for the opening of a beer and wine store in Iqaluit.

SOCIALLY RESPONSIBLE DRINKING (SRD)

With the passing of an amendment the Liquor Act (Section 59.1), beginning with the 15-16 budget, $500K is now allocated annually from the Liquor Revolving Fund to support social responsibility campaigns.

In 2015-16 SRD funding was allocated to sponsoring a "Thank you for not drinking" campaign during the 2015 Holiday season for the communities of Iqaluit, Rankin Inlet and Cambridge Bay. Several businesses also contributed to the promotion. The RCMP and municipal bylaw officers handed out taxi vouchers/coupons to the general public prior to the holiday season. Coupons were also made available to any customers purchasing alcohol prior and during the holiday in all three communities.

Also in 2015-16 the Commission hired Context Research, through the request-for-proposals process, to develop a three-year strategy for responsible alcohol use. Context Research has extensive experience in developing and managing large scale campaigns. Their team includes experts who have years of national and international experience in responsible alcohol policy and alcohol use.

During the month of February 2016, staff from Nunavut Liquor Management and Context Research visited seven communities to seek feedback and discuss how to create a responsible alcohol use campaign. Among those consulted were alcohol education committees, elders, youth, parents, community business leaders, students, teachers, principals, senior administrative officers, the police, mental health workers, public health staff, wellness and health care staff or alcohol and drug counselors.

Development and delivery of the campaign will continue into the 2016-17 and 2017-18 fiscal years.

LIQUOR ENFORCEMENT AND INSPECTIONS

LIQUOR ENFORCEMENT AND INSPECTIONS ACTIVITY REPORT

All distribution of alcoholic beverage products authorized by liquor licenses and special occasion liquor permits issued under the Act are subject to inspection by Liquor Enforcement and Inspections. These inspections, also known as spot checks, are to ensure adherence to the Liquor Act and Regulations. Conditions pertaining to fire risk, health and safety infractions, and the use of tobacco in and around premises licensed for the sale of liquor are also subject to inspection.

Inspections are carried out by trained contract personnel. Any infractions observed are brought to the attention of the Chief Inspector in Iqaluit, who reports to the Manager of Liquor Enforcement and Inspections at the Commission headquarters in Rankin Inlet.

Infractions are discussed with the Department of Justice and, where warranted, the licensee must attend a show cause hearing before the Nunavut Liquor Licensing Board, with the Department of Justice acting as prosecutor. Such hearings may result in the imposition of restrictions in accordance with the Act, and may result in the suspension of a license.

The Commission keeps a roster of three contract inspectors in Iqaluit, as well as one inspector each in Rankin Inlet and Cambridge Bay. Regularly scheduled inspections were carried out with more focus on the busier evenings through the week and weekend. The Commission spent $24,180 on spot checks at a rate of $30 per inspection. There were 806 total inspections for 2015-16.

Info-Box: Nunavut's Liquor Restriction Systems

The Liquor Act provides Nunavummiut with a ranked liquor restriction structure based on four systems, ranging from standard access to total exclusion. Communities choose their appropriate system by plebiscite. Described under section 48(2) of the Act, these systems are:

1. *An unrestricted system in which the community is subject only to the general liquor laws of Nunavut;*
2. *A restricted quantities system has, in addition to the general liquor laws, restrictions on the quantity of liquor that a person may purchase*
3. *A committee system, in which a locally elected alcohol education committee decides:*
    - *who may consume, possess, purchase or transport liquor in the settlement, municipality or area,*
    - *who may import liquor into the settlement, municipality or area under the Act,*
    - *the amount of liquor that a person may possess, purchase, transport or import in the settlement, municipality or area,*
    - *who may apply for a wine permit in the settlement, municipality or area and the amount of wine that a person may apply to make, and*
    - *who may brew beer for personal or family consumption in the settlement, municipality or area and the amount of beer that a person may brew;*
4. *A prohibition system prohibits the consumption, possession, purchase, sale or transport of liquor within the settlement, municipality or area.*

Nunavummiut may also make a purchase through an import permit, which allows them a wider range of options for both selection and price. Should they choose to import their alcohol beverage product from outside the territory, individuals must purchase an import permit from one of the three permit agent offices in Cambridge Bay, Rankin Inlet or Iqaluit.

TABLE 2: IMPORT PERMIT FEE STRUCTURE

Import Permit Fees	
Spirits	$3.75 per litre
Wine	$2.00 per litre
Coolers	$0.59 per litre
Beer	$0.56 per litre

In communities governed by an Alcohol Education Committee (AEC), individuals apply to their community's AEC to seek approval to bring alcohol beverage products into the community. The AEC may place restrictions on the purchase or even deny the application (see Table 2 for liquor restriction systems and Table 4 for community system breakdown). Once an individual has obtained permission from the community AEC, an order may be placed or a permit purchased.

One final aspect of liquor retailing in Nunavut is the Commission's effort to encourage recycling through container deposits. The Commission places a container deposit on all liquor purchases made, whether bottle, can, or other, and is prepared to accept returned empty liquor containers at any established recycling centre. The Commission charges $0.29 for bottles and $0.14 per can.

Three plebiscites were ordered by the Minister during the fiscal year for Iqaluit, Cape Dorset and Gjoa Haven. Iqaluit residents voted in favor of a beer and wine store. There was no change in the status of Cape Dorset and Gjoa Haven as a result of the plebiscites.

Alcohol Education Committee (AEC) elections were conducted in the six restricted communities during December 2015. Many new members were elected.

TABLE 3: BREAKDOWN OF COMMUNITIES BY THEIR CHOSEN SYSTEM

Alcohol Status by Nunavut Community		
Unrestricted	**Restricted**	**Prohibited**
Cambridge Bay	Arctic Bay	Arviat
Grise Fiord	Baker Lake	Coral Harbour
Iqaluit	Cape Dorset	Gjoa Haven
Rankin Inlet	Chesterfield Inlet	Kugaaruk
Taloyoak	Clyde River	Pangnirtung
	Hall Beach	Sanikiluaq
	Igloolik	
	Kimmirut	
	Kugluktuk	
	Naujaat	
	Pond Inlet	
	Qikiqtarjuaq	
	Resolute Bay	

In October 2015, the Commission hosted their bi-annual Alcohol Education Committee Conference in Iqaluit. Every community in Nunavut was invited to send an AEC or Municipal representative. There were 17 representatives from across Nunavut, plus four Commission staff members. Weather was the major factor in the absence of most. It was a three day conference where focus was on best-practices as well as the expressed need to update all the AEC Regulations to harmonize them from community to community.

MANAGEMENT DISCUSSION AND ANALYSIS AND UNAUDITED SCHEDULES

The fiscal year 2015-16 was the Commission's twelfth full year of operation since taking over responsibility for the public agency from the Government of the Northwest Territories in October 2004.

TABLE 4: GROSS PRODUCT SALES

	2015-16		2014-15		Change vs 2014-15			
	Litres	$000s	Litres	$000s	Litres	$000s	%ΔL	%Δ$
Spirits	35,924	1,470	38,182	1,529	-2,258	-59	-5.91%	-3.86%
Wine	37,832	655	38,691	655	-859	-	-2.22%	0.00%
Cooler	9,066	88	9,438	82	-372	6	-3.94%	7.32%
Beer	492,925	3,205	507,188	3,104	-14,263	101	-2.81%	3.25%
Product Sales	575,747	5,418	593,499	5,370	-17,752	48	-2.99%	0.89%
Other Revenue	-	588	-	504	-	84	-	16.67%
Total	575,747	6,006	593,499	5,874	-17,752	132	-2.99%	2.25%

Total revenue increased by $132,000 between 2014-2015 and 2015-2016. Customers in the Kivalliq region have continued to import alcohol from Manitoba.

"Other Revenue" in this table includes (among other things) drop-shipped sales to licensees in Cape Dorset and Cambridge Bay in the amount of 17,995 litres valued at $147,777.

Import Permits, Licensee Fees, Licenses, Special Occasion Permits and fines generated a total of $919,655 in revenue. This is broken out to $660,091 in Import Permit Fees, $214,440 in Licensee Fees, License Renewal Fees and Special Occasion Permits, and $45,124 in fines and restitutions. This includes a restitution in the sum of $10,566 which was paid after the Commission conducted an investigation into the irregular issuance of permits of a former agent.

TABLE 5: IMPORT PERMIT LICENSE FEES $000'S

Category	2015-16	2014-15	Change	% Change
Import Fees	660,091	722,104	-62,013	-9%
License & SOP	214,440	199,682	14,758	7%
Fines/Restitutions	45,124	6,422	38,702	603%
Total	919,655	928,208	-8,553	-1%

Permit Sales continue to increase as customers choose to purchase liquor outside of the territory. The greatest increase, 28%, was the Rankin Inlet office. As in the previous fiscal years liquor can be brought cheaper from Churchill in comparison to purchasing liquor from the Iqaluit warehouse.

The following two tables (7 and 8) show the total sales from the Liquor Commission operated liquor warehouses, situated in Rankin Inlet and Iqaluit.

TABLE 6: SALES BY LOCATION IN LITRES

Litres	Iqaluit			Rankin Inlet			Total	
	2015-16	2014-15	%Change	2015-16	2014-15	%Change	2015-16	2013-14
Spirits	26,515	27,043	-1.95%	9,409	11,139	-15.53%	35,924	38,182
Wine	30,207	29,647	1.89%	7,625	9,044	-15.69%	37,832	38,691
Cooler	7,710	7,007	10.03%	1,356	2,432	-44.24%	9,066	9,439
Beer	457,088	458,273	-0.26%	35,837	48,914	-26.73%	492,925	507,187
Total	**521,520**	**521,970**	-0.09%	**54,227**	**71,529**	-24.19%	**575,747**	**593,499**

TABLE 7: SALES BY LOCATION IN $000'S

Category	Iqaluit			Rankin Inlet			Total		Change
	2015-16	2014-15	%Change	2015-16	2014-15	%Change	2015-16	2014-15	
Spirits	1083	1086	0%	387	443	-13%	1470	1529	-59
Wine	527	505	4%	128	150	-15%	655	655	0
Cooler	74	63	17%	14	19	-26%	88	82	6
Beer	2975	2799	6%	230	305	-25%	3205	3104	101
Product Sales	4659	4453	5%	759	917	-17%	5418	5370	48
Other Revenue	0	418	-100%	0	86	-100%	0	504	-504
Total	4659	4871	-4%	759	1003	-24%	5418	5874	-456

As shown in the above tables, the volume of sales decreased by 3% from 2014-15. Sales from the Rankin Inlet warehouse decreased by 24%. Iqaluit warehouse sales virtually remained the same as 2014-15.

CUSTOMER SALES BY COMMUNITY

We are experiencing a drop in customer sales while the overall sale of permits has remained relatively the same (See Table 6); indicating customers continue to find it favorable for them to import their alcohol from outside our territory.

TABLE 8: CUSTOMER SALES BY COMMUNITY FOR THE FISCAL YEARS 2010 TO 2014

Community	2012	2013	2014	2015	2016	2012vs2016
Iqaluit	**512,022**	465,324	418,376	386,187	280,234	-45%
Baker Lake	448,800	**466,579**	411,183	309,206	278,340	-38%
Igloolik	144,771	167,521	163,826	**177,663**	**191,220**	32%
Cape Dorset	163,411	126,518	130,552	**186,452**	161,456	-1%
Pond Inlet	**124,552**	109,754	124,530	95,081	75,953	-39%
Rankin Inlet	**206,754**	135,523	100,812	83,649	37,745	-82%
Kimmirut		**71,769**	67,577	56,021	56,960	-21%
Clyde River	82,827	**93,164**	66,940	77,345	52,591	-37%
Resolute Bay	48,455	**58,116**	52,310	**58,639**	52,858	9%
Hall Beach	66,298	64,960	51,878	49,228	**68,093**	3%

Community	2012	2013	2014	2015	2016	2012vs2016
Naujaat	37,959	38,850	46,151	**54,919**	**57,884**	52%
Chesterfield Inlet	27,167	26,067	**44,068**	39,543	31,867	17%
Whale Cove	40,520	41,272	**43,016**	38,641	37,297	-8%
Arctic Bay	34,888	35,110	34,606	**36,680**	27,334	-22%
Qikiqtarjuaq	18,246	**24,131**	22,613	13,573	19,720	8%
Grise Fiord	20,323	17,122	**20,536**	25,505	**33,307**	64%
Grand Total	**1,976,994**	**1,941,782**	**1,798,973**	**1,688,332**	**1,462,860**	-26%

Notes:

Highest sales are highlighted as **BOLD**

Sales excludes GST, bottle deposits and handling fees.

Amounts are for only individual customers and do not include purchases from Special Occasion permits, Licencees, or other purchases made by outfitters and group customers.

The highest yielding sales year was 2012. The most dramatic increase was Grise Fiord with sales increasing by 64% between 2012 and 2016, and the most dramatic decrease was Rankin Inlet sales at -82% over the same period. The dramatic decrease can be attributed to Rankin Inlet customers choosing to import alcohol rather than purchasing their liquor from the Iqaluit warehouse. In addition Rankin Inlet has seen an increase of 28% in unusual activity, meaning that individuals are purchasing imported liquor from outside the territory greater than what the Canadian guidelines for the responsible use of liquor recommend.

TABLE 9: CUSTOMER SALES BY CATEGORY WITH NET 5 YEAR CHANGE

Category	2012	2013	2014	2015	2016	Change 2012-2015
Beer	424,797	438,720	432,050	367,238	306,642	-14%
Coolers	26,735	20,106	22,407	18,322	17,085	-31%
Spirits	1,316,201	1,261,106	1,128,519	1,078,335	955,579	-18%
Wine	209,261	221,850	215,998	199,951	183,554	-4%
Total	**1,976,994**	**1,941,782**	**1,798,974**	**1,663,846**	**1,462,860**	-16%

Customers in Iqaluit and Baker Lake are the two communities that purchase the most alcohol through the Nunavut Liquor Commission. We expect this trend to continue in coming years as economic activity is forecast to increase over the next two to three years.

Rankin Inlet has experienced a dramatic drop in sales from the Liquor Commission, 64% over the last five years, and it seems that the customers in Rankin Inlet prefer importing their alcohol from other jurisdictions and that this is a trend that will continue unless the Liquor Commission can improve service and convenience to again attract more customers from Rankin Inlet.

TABLE 10: PERMIT SALES WITH 5 YEAR CHANGE

Category	2012	2013	2014	2015	2016*	Change 2015-2011
Beer	116,969	114,662	113,149	109,569	190,451	63%
Coolers	2,438	2,415	2,258	2,052	1,878	-23%
Spirits	354,050	376,299	387,416	406,568	434,270	23%
Wine	59,747	73,098	84,995	87,667	99,116	66%
Total	**533,204**	**566,474**	**587,818**	**605,856**	**725,715**	**36%**

** includes bottle deposits for comparative purposes*

SALES BY CATEGORY

When comparing customer warehouse and permit sales to licensees sales, several trends emerge. Licensees sales have increased over the previous fiscal year, but still lag behind 2012 Sales by 1%.

Secondly, customers may be still choosing to consume alcohol in the comfort of their own homes as permit sales have increased while customer warehouse sales continue to decline. 2016 Customer sales figures were the lowest in the five years reported.

Permit sales for 2016 are the highest over the five period. Rankin Inlet permit sales dramatically increased over the five year period just as warehouse sales decreased. Many Rankin Inlet customers have claimed that it is cheaper to bring liquor from Churchill, Manitoba than it is to order from Iqaluit.

TABLE 10: LICENCEES SALES WITH 5 YEAR CHANGE

Category	2011	2012	2013	2014	2015	2016	Change 2015-2011
Beer	3,101,958	3,027,094	2,853,107	2,659,081	2,870,522	2,988,796	-1%
Coolers	87,193	69,234	67,653	62,763	66,503	71,514	3%
Spirits	482,471	478,687	458,114	451,284	481,653	501,859	5%
Wine	372,568	384,096	415,626	428,066	443,925	471,992	23%
Total	**4,044,190**	**3,959,111**	**3,794,500**	**3,601,194**	**3,862,603**	**4,034,162**	**2%**

IMPACT OF IMPORT PERMITS

When a permit is issued, Nunavut "loses" the mark-up from the sale of the item. The mark-up (see p. 2 for additional information on the legislative mark-up) for 1 L of spirits sold in Nunavut is $26.11. Thus a sum of $22.36 is lost for every litre of spirits that are purchased outside Nunavut such as Northwest Territories (via Yellowknife), and Manitoba (via Churchill) Liquor Commissions and vendors in Quebec and Ontario.

Nunavut lost in excess of $2.7 million dollars to imported liquor which represents 45% of our overall gross sales.

TABLE 12: LOST MARK-UP FROM THE ISSUANCE OF IMPORT PERMITS

For the Year ending March 31, 2016				
	Iqaluit	**Rankin**	**Kitikmeot**	**Total**
Spirits ($26.11 - $3.75)	1,474,904	591,727	88,539	2,155,170
Wine ($7.96 - $2.00)	204,739	61,985	5,541	272,266
Beer ($2.37 - $0.56)	243,108	26,464	15,795	285,367
Coolers ($3.27 - $0.69)	2,546	2,361	769	5,676
Total lost revenue	1,925,297	682,537	110,645	2,718,478

NUNAVUT LIQUOR COMMISSION

Rankin Inlet, NU

CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended March 31, 2016

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016

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MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Nunavut Liquor Commission (NLC) is responsible for the integrity and objectivity of the consolidated financial statements and related note disclosures. The consolidated financial statements were prepared in accordance with Canadian Public Sector Accounting Standards and, consequently, include some amounts which are based on the best estimates and judgment of management.

In carrying out its responsibilities, management is responsible for the operation of financial systems and related internal controls to provide reasonable assurance that financial information presented by the management of NLC is reliable, assets are safeguarded, transactions are properly authorized, resources are managed efficiently and economically, and operations are carried out effectively in the attainment of corporate objectives, and that transactions are in accordance with the *Liquor Act* and the *Financial Administration Act* of Nunavut.

The external auditors, Lester Landau, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of NLC and meet when required.

Chris D'Arcy
Deputy Minister
Department of Finance

Marion Love
Director
Nunavut Liquor Management

June 2, 2016

LESTER LANDAU
Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Minister of Finance of the Government of Nunavut

We have audited the accompanying consolidated financial statements of the Nunavut Liquor Commission, which comprise the consolidated statement of financial position as at March 31, 2016 and March 31, 2015 and the consolidated statements of operations, changes in net financial debt, amount due to the Government of Nunavut, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nunavut Liquor Commission as at March 31, 2016 and March 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with Canadian Public Sector Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act* of Nunavut we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

We further report in accordance with Part IX of the *Financial Administration Act* of Nunavut and regulations, the *Liquor Act* of Nunavut and regulations, and the by-laws of the Nunavut Liquor Commission that, in our opinion, proper books of account have been kept by the Nunavut Liquor Commission, the consolidated financial statements are in agreement therewith and the transactions that have come under our notice have, in all significant respects, been within the statutory powers of the Nunavut Liquor Commission.

Iqaluit, Nunavut
June 2, 2016

CHARTERED ACCOUNTANTS

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	March 31 2016	March 31 2015
Financial Assets		
Cash	$ 750	$ 750
GST receivable	11,463	3,420
Inventories (note 3)	1,523,761	1,641,859
	1,535,974	1,646,029
Liabilities		
Accounts payable and accrued liabilities	157,475	125,433
Employee future benefits (note 4)	149,680	126,303
Bottle deposit outstanding	24,900	24,012
Deferred revenue	7,470	35,148
Due to Government of Nunavut	1,430,021	1,432,702
	1,769,546	1,743,598
Net Financial Debt	(233,572)	(97,569)
Non-Financial Assets		
Prepaid expenses	-	6,311
Tangible capital assets (note 5)	233,572	91,258
	233,572	97,569
Accumulated Surplus	$ -	$ -

Commitments (note 7)

Marion Love
Director
Nunavut Liquor Management

Chris D'Arcy
Deputy Minister of Finance
Department of Finance

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended March 31,	2016	2015
Sales	$ 6,005,514	$ 5,874,227
Cost of Sales	2,247,311	2,268,781
Gross Margin	3,758,203	3,605,446
Other Income		
Import permit fees and special occasion permits	660,091	722,104
Licence fees	214,440	199,683
Restitution and other income	45,124	6,412
	4,677,858	4,533,645
Expenses		
Administration and operations (Schedule 1)	3,270,490	3,040,865
Enforcement and inspections (Schedule 2)	577,265	329,834
	3,847,755	3,370,699
Net Surplus	$ 830,103	$ 1,162,946

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL DEBT

For the year ended March 31,	2016	2015
Net surplus for the year	$ 830,103	$ 1,162,946
Amortization of tangible capital assets	32,882	16,889
Disposal (acquisition) of tangible capital assets	(175,196)	(44,007)
Prepaid expenses	6,311	6,312
Transfer of net surplus for the year to the Government of Nunavut	(830,103)	(1,162,946)
	(966,106)	(1,183,752)
Decrease (increase) in net financial debt	(136,003)	(20,806)
Net financial debt, beginning of year	(97,569)	(76,763)
Net financial debt, end of year	$(233,572)	$(97,569)

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION

CONSOLIDATED STATEMENT OF AMOUNT DUE TO THE GOVERNMENT OF NUNAVUT

For the year ended March 31,	2016	2015
Balance, beginning of year	$ 1,432,702	$ 1,445,327
Net surplus for the year	830,103	1,162,946
Net transfer of funds to the Government of Nunavut	(832,784)	(1,175,571)
	$ 1,430,021	$ 1,432,702

The accompanying notes and schedules are an integral part of these consolidated financial statements.

NUNAVUT LIQUOR COMMISSION
CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31,	2016	2015
Cash Flows from Operating Activities		
Cash receipts from customers	$ 6,889,448	$ 6,846,079
Cash paid to suppliers and employees	(5,881,468)	(5,626,501)
Cash transferred to the Government of Nunavut (Net)	(832,784)	(1,175,571)
Cash Provided by Operating Activities	175,196	44,007
Purchase of property and equipment	(175,196)	(44,007)
Cash Used in Investing Activities	(175,196)	(44,007)
Net Increase / (Decrease) in Cash	-	-
Cash, beginning of year	750	750
Cash, end of year	$ 750	$ 750

The accompanying notes and schedules are an integral part of these consolidated financial statements.

1. Authority and Operations

The Nunavut Liquor Commission (NLC) - The Commission is established under Part II of the *Liquor Act (Nunavut)*.

The Commission is responsible for the operation of the liquor warehouses and the purchase and sale of liquor in Nunavut through the Liquor Revolving Fund of the Government of Nunavut. The Commission is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advances for the 2015 - 2016 fiscal year. While some expenses are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

The Nunavut Liquor Enforcement and Inspections Division is responsible for ensuring that all distribution of liquor products is authorized by liquor licences and special occasion liquor permits issued under the *Liquor Act (Nunavut)*.

The Commission, in addition to its regular responsibilities, manages, directs and provides financial services to, and on behalf of, the Nunavut Liquor Enforcement and Inspections Division. As such, the Commission controls the aforementioned group. As a result of this control, the Nunavut Liquor Enforcement and Inspections Division is consolidated into the Nunavut Liquor Commission in preparing these consolidated financial statements. In addition, there are no related party transactions, except with the Government of Nunavut.

The attached Schedules of Income and Expenses segregate the financial results of the operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division on a stand-alone basis.

2. Significant Accounting Policies

(a) Consolidated Financial Statements

NLC's consolidated financial statements are prepared in accordance with Canadian Public Sector Accounting Standards.

(b) Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Nunavut Liquor Commission and the Nunavut Liquor Enforcement and Inspections Division, over which the Nunavut Liquor Commission exhibits control by managing and directing the Nunavut Liquor Enforcement and Inspections Division. All inter-entity balances and transactions, if any, were eliminated in determining the consolidated figures.

2. Significant Accounting Policies (continued)

(c) Measurement Uncertainty

The preparation of consolidated financial statements in accordance with Canadian Public Sector Accounting Standards requires the use of estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in the consolidated financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the consolidated financial statements of changes to such estimates and assumptions in future periods could be significant, although, at the time of preparation of these consolidated financial statements, management believes the estimates and assumptions to be reasonable. Significant management estimates include the liability for bottle deposit outstanding, the provision for employee future benefits and the useful lives of equipment.

(d) Cash and cash equivalents

Cash and cash equivalents are comprised of a small cash float that is maintained by NLC. All sales and other cash receipts of NLC are deposited to the Liquor Revolving Fund. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All sales and other cash receipts of the Nunavut Liquor Enforcement are deposited into the Government of Nunavut Consolidated Revenue Fund. All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund.

(e) Inventories

Inventories consist of alcohol products valued at the lower of cost or net realizable value on a first-in, first-out basis.

(f) Accounts Receivable

Accounts receivable are valued at the lower cost and net recoverable value. Valuation allowances, if necessary, are recorded based on all circumstances in existence at the statement of financial position date that are known at the date these consolidated financial statements are prepared.

2. Significant Accounting Policies (continued)

(g) Tangible Capital Assets

Tangible Capital Assets are initially recorded at cost, and are subsequently amortized to expense. Amortization expense is recognized on a consistent basis over the estimated useful life of the assets. In the year of purchase, amortization is applied at half the normal rate. The rates are as follows:

Computer hardware	30% declining balance
Computer software	100% declining balance
Furniture and equipment	20% declining balance
Leasehold improvements	straight line over the term of the lease up to 10 years
Vehicles	30% declining balance

(h) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities are recorded as incurred. Annual, in lieu and optional leave, and severance liabilities have been included in accrued liabilities under employee future benefits.

(i) Bottle Deposit Liability

The bottle deposit liability is estimated based on the last three months of sales, to allow time for licensees and clients to return recyclables for refund.

(j) Deferred Revenue

Deferred revenue includes revenues received in advance of goods being provided or services being performed with stipulations that meet the definition of a liability per Section PS 3200. When stipulations are met, deferred revenue is recognized as revenue in the fiscal year in a manner consistent with the circumstances and evidence used to support the initial recognition of the revenue received as a liability.

2. Significant Accounting Policies (continued)

(k) Employee Future Benefits

Non-pension Benefits

Under the conditions of employment, eligible employees may earn non-pension benefits for severance, retirement and removal based on years of service. The benefits are paid upon resignation, retirement or death of an employee. The expected cost of providing these benefits is recognized as employees render service and has been determined based on management's assumptions and best estimates. The NLC provides severance, retirement and removal benefits to eligible employees based on years of service, final salary and community of residence.

Pension Benefits

Eligible employees of the NLC participate in the Public Service Pension Plan administered by the Government of Canada. The employees and NLC contribute to the cost of the Plan. The NLC's contributions to the Plan reflect the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions and may change from time to time depending on the experience of the Plan. The NLC contributed at a rate of 1.15 times the employees contribution for the calendar year of 2016 (1.28 times for the calendar year of 2015). These contributions are charged to expenditures on a current year basis, and represent the total pension obligation of the NLC. NLC is not obligated under present legislation to make contributions to actuarial deficiencies of the Public Service Pension Plan.

(l) Revenue Recognition

Revenue from sales of liquor is recorded when the customer places their order, it has been paid in full and the products have been shipped.

Revenue from sales of import permit fees and special occasion permits is recorded when the customer places their order and it has been paid in full.

Revenue from licence fees are recognized on a straight-line basis over the term of the licence. Licences do not exceed one year.

(m) Expenses

Expenses are recorded on an accrual basis. While some expenses of NLC are paid directly from the Liquor Revolving Fund, other expenses are paid by the Government of Nunavut through the Consolidated Revenue Fund and are reimbursed from the Liquor Revolving Fund.

All expenses of the Nunavut Liquor Enforcement are paid by the Government of Nunavut through the Consolidated Revenue Fund without reimbursement.

2. Significant Accounting Policies (continued)

(n) Financial Instruments

The NLC initially measures its financial assets and financial liabilities at fair value adjusted by, in the case of a financial instrument that will not be measured subsequently at fair value, the amount of transaction costs directly attributable to the instrument.

The NLC subsequently measures all its financial assets and financial liabilities at amortized cost, except for derivatives and equity securities quoted in an active market, which are subsequently measured at fair value.

Financial assets measured at amortized cost include cash and cash equivalents and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities, employee future benefits, bottle deposit outstanding and amounts due to the Government of Nunavut.

(o) Due to the Government of Nunavut

The *Liquor Act (Nunavut)* requires the NLC to present the amount owing to the Government of Nunavut. This is calculated by summing the following amounts: The Balance owing at the end of the prior year, the Net Surplus for the year, less the net funds transferred to the Government of Nunavut during the year. The ending balance is normally carried forward to be funded from future year's Net Surplus.

This balance is a non-interest bearing liability.

3. Inventories

	March 31 2016	March 31 2015
Spirits	$ 524,424	$ 560,621
Wine	362,292	376,878
Beer	574,722	676,290
Coolers and ciders	62,323	28,070
	$ 1,523,761	$ 1,641,859

4. Employee Future Benefits

The Employee Future Benefits accrued by the NLC relate to annual leave benefits and severance benefits.

Non-pension Benefits

NLC provides non-pension benefits to its employees for severance and removal costs. As at March 31, 2016 severance and removal costs total $102,507 ($51,327 - 2015).

Pension Plan

NLC and all eligible employees contribute to the Public Service Pension Plan (PSPP). This pension plan provides benefits based on years of service and best five years average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	2016	2015
Employer's contributions	$ 148,755	$ 142,866
Employees' contributions	$ 119,029	$ 102,154

5. Tangible Capital Assets

			March 31 2016	March 31 2015
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 53,669	$ 50,318	$ 3,351	$ 4,788
Computer software	50,777	50,777	-	-
Furniture and equipment	276,561	125,470	151,091	67,027
Leasehold improvements	51,101	3,070	48,031	19,443
Vehicles	36,587	5,488	31,099	
	$ 468,695	$ 235,123	$ 233,572	$ 91,258

6. Expenses by Object

	2016	2015
Salaries and benefits	$ 2,083,684	$ 1,898,780
Rent	541,617	506,321
Office	248,208	192,985
Bottle deposits refund	189,253	211,840
Social responsibility	185,682	38,933
Bank charges and interest	104,163	107,465
AEC support	98,490	-
Contractor fees	96,461	94,968
Utilities	80,779	84,347
Travel	64,939	53,386
Repairs and maintenance	48,036	106,712
Plebiscite expenses	35,542	2,246
Amortization	32,882	16,889
Professional fees	23,582	42,954
Communication	11,130	11,927
Loss on disposal of assets	2,919	-
Bad debt provision	388	946
	$ 3,847,755	$ 3,370,699

7. Commitments

There is a two year lease effective April 1, 2014, expiring April 1, 2016, for warehouse and office premises in Rankin Inlet. A renewal agreement is currently being negotiated. A five year lease agreement effective April 1, 2012, expiring April 1, 2017, for the liquor warehouse in Iqaluit valued at $120,000 per year is also in place. Additional warehouse space was leased as of October 1, 2014 for a term of five years expiring September 30, 2019 valued at $161,058 per year. The minimum annual lease payments are as follows:

Fiscal year ending March 31	Total
2017	$ 281,057
2018	161,058
2019	161,058
2020	80,528
	$ 683,701

8. Related Party Transactions

The NLC is related in terms of common ownership to all of the Government of Nunavut created departments, agencies and Crown corporations. The NLC enters into transactions with these entities in the normal course of business at normal trade terms. All sums collected by the NLC are deposited directly into a Government bank account, and the Government of Nunavut pays for all of the expenses of the NLC. Expenses include the following services provided by the Government of Nunavut at cost and Qulliq Energy Corporation at normal trade terms, during the normal course of business:

	2016	2015
Government of Nunavut:		
Communications	$ 9,350	$ 9,350
Office	92,715	22,177
Rent (note 7)	281,058	253,307
Repairs and maintenance	47,111	47,903
Property taxes	30,570	34,719
Qulliq Energy Corporation		
Utilities (electricity)	16,995	15,960
	$ 477,799	$ 383,416

9. Capital Management

NLC's capital is cash, it has no Contributed Equity. NLC is authorized by the Legislative Assembly to receive free working capital advances from time to time not exceeding $6,500,000 to finance its operations. The NLC did not request any working capital advance for the 2015-16 fiscal year.

All revenues collected by the NLC are deposited into a bank account controlled by the Government of Nunavut. As the Government of Nunavut controls all cash deposited by the NLC, the Government of Nunavut pays for all the expenses of the NLC.

10. Financial Instruments and Risk Management

Credit Risk - Credit risk refers to the potential that a customer or counter party to a financial instrument will fail to discharge its contractual obligations, and arises principally from the NLC's receivables from customers. NLC has minimum exposure to credit risk from customers as collection is made prior to sales. Where necessary, the NLC performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectibility of its trade and other accounts receivable in order to mitigate any possible credit losses.

Interest Rate Risk - Interest rate risk is the risk that the fair values of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The NLC is not exposed to interest rate risk because the NLC has no investments or debt.

Liquidity Risk - Liquidity risk is the risk that the NLC will not be able to meet its financial obligations as they fall due. The NLC is not exposed to liquidity risk, although some expenses of NLC are paid directly from the Liquor Revolving Fund, others are paid directly by the Government of Nunavut through the Consolidated Revenue Fund and reimbursed from the Liquor Revolving Fund.

Foreign Currency Risk - The NLC is not exposed to risk arising from fluctuation in foreign exchange rates since it enters into sales and purchase transactions denominated in Canadian currency.

Unless otherwise noted, it is management's opinion that NLC is not exposed to other significant interest, currency or credit risks arising from these financial instruments.

11. Comparative Figures

Certain figures presented for comparative purposes have been reclassified to conform with the current year's presentation.

NUNAVUT LIQUOR COMMISSION

SCHEDULE 1 - NUNAVUT LIQUOR COMMISSION

For the year ended March 31,	2016	2015
Sales	$ 6,005,514	$ 5,874,227
Cost of Sales	2,247,311	2,268,781
Gross Margin	3,758,203	3,605,446
Other income	34,558	6,412
Prior years adjustments	545,347	(779,350)
	4,338,108	2,832,508
Expenses		
Salaries and benefits	1,790,209	1,739,474
Rent	541,617	506,321
Office	222,799	184,623
Bottle deposits refund	189,253	211,840
Social responsibility	185,682	38,933
Bank charges and interest	86,534	81,777
Property taxes and utilities	80,779	84,347
Repairs and maintenance	48,036	106,712
Amortization	32,882	16,889
Travel	27,919	15,614
Plebiscites expenses	27,221	-
Professional fees	23,582	42,954
Communication	10,670	10,435
Loss on disposal of assets	2,919	-
Bad debt provision	388	946
	3,270,490	3,040,865
Revenue in Excess (Deficit) of Expenses	$ 1,067,618	$(208,357)

NUNAVUT LIQUOR COMMISSION

SCHEDULE 2 - NUNAVUT LIQUOR ENFORCEMENT AND INSPECTIONS DIVISION

For the year ended March 31,	2016	2015
Income		
Import permit fees and special occasion permits	$ 660,091	$ 722,104
Licence fees	214,440	199,683
Restitution and other income	10,566	-
Prior years adjustments	(545,347)	779,350
	339,750	1,701,137
Expenses		
Salaries and benefits	293,475	159,306
AEC support	98,490	-
Contractor fees	96,461	94,968
Travel	37,020	37,772
Office	25,409	8,362
Bank charges and interest	17,629	25,688
Plebiscites expenses	8,321	2,246
Communication	460	1,492
	577,265	329,834
Revenue in Excess (Deficit) of Expenses	$(237,515)	$ 1,371,303